

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: April 21, 2008
POSITION: Oppose

BILL NUMBER: SB 1457
AUTHOR: D. Steinberg

BILL SUMMARY: Golden State ScholarShare Trust Act: CalSAVE Program

This bill would establish the California ScholarShare Advancement Vehicle for Education (CalSAVE) program within the ScholarShare trust. The CalSAVE program would authorize the ScholarShare Investment Board (SIB) to fund individual scholarship accounts for beneficiaries to be determined by the SIB. The CalSAVE account would be funded through contributions from the federal, state, or local government, individuals, businesses, or upon appropriation by the Legislature from the administrative fund.

FISCAL SUMMARY

We estimate significant, but unquantifiable, new state operations costs for the SIB that would be funded from administrative allowances authorized from interest earnings on funds invested in the ScholarShare Trust Fund. To the extent SIB approves multiple grant programs, the costs could be in the millions of dollars over time.

Moreover, we note this bill could create significant General Fund cost to sustain new scholarship programs authorized by the SIB under this bill to the extent donations and external fund sources do not satisfy the demand for such scholarships, donations fail to materialize as planned or in the event donors condition their contributions contingent on matching of additional state funds.

COMMENTS

The Department of Finance (Finance) is opposed to this bill for the following reasons:

- This bill could create a significant General Fund cost pressure of unknown, but possibly very significant magnitude, if donations and federal funds do not materialize or demand exceeds funds available for a particular program started by the SIB.
- This bill would authorize an independent board to establish new scholarship programs for the state that may create demand for General Fund. As such, it is a significant policy departure and, noting that this agency has limited experience in conducting applications for competitive financial aid grants, it is unclear that the SIB could do this effectively and at reasonable costs.
- The need for this bill is unclear. There are several existing financial aid programs and grants available to the student populations targeted by this proposed program. These programs include the California Chaffee Grant, the Assumption Program of Loans for Education (APLE) program, the State Nursing Assumption Program of Loans for Education, SNAPLE NF program for nurses in state facilities, Tuition Assistance for National Guard members proposed in SB 1762 (Wyland) and the Song-Brown Health Care Workforce Training Act. Donations to the state for financial aid purposes for these selected populations could be received and allocated to existing programs or agencies to administer.

Analyst/Principal (0342) T. Todd	Date	Program Budget Manager Jeannie Oropeza	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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ANALYSIS**A. Programmatic Analysis**

Current law authorizes the Golden State ScholarShare College Savings Trust (ScholarShare Trust) and the ScholarShare Investment Board (SIB) through Education Code Sections 69980 through 69994. The SIB consists of the Treasurer, the Director of Finance, the Secretary of Education, a member of the Student Aid Commission appointed by the Governor, a representative from a California public institution of higher education appointed by the Senate Committee on Rules, and a representative from a California independent college or university or state-approved college, university, or technical school appointed by the Speaker of the Assembly. ScholarShare currently offers California families a tax-advantaged college tuition savings plan through the ScholarShare Trust program. This savings plan allows families to invest and save for a college education with state tax-deferred and federal tax-free benefits. Through this program, a participant opens an account on behalf of a designated beneficiary. This contributed money is placed in a trust and invested in investment portfolios designed to meet the needs of the beneficiary. Current law also prevents the SIB from accepting contributions that are not designated for a specific beneficiary.

Current law also supports the following financial aid programs and grants relative to the populations intended by this bill:

The California Chaffee Grant provides funding for current or former foster youth to help pay for college or career or technical training. The grant may also be used to pay for child care, transportation and rent while a recipient is in school. This program is administered by the California Student Aid Commission (CSAC) through General Fund and Federal Fund reimbursements received from the Department of Social Services. The program supports over 2,000 students a year at a cost of approximately \$13.5 million.

APLE (Assumption Program of Loans for Education) is a teacher incentive program designed to encourage students to become California teachers in a range of critical teacher shortage areas and in several types of high need schools. Administered by the California Student Aid Commission, the program assumes up to \$19,000 in outstanding educational loan balances in return for four consecutive years of qualifying teaching service. The state authorizes between 7,000 and 8,000 new awards each year and current loan forgiveness payments are approximately \$40 million per year.

SNAPLE (State Nursing Assumption Program of Loans for Education) is intended to encourage students to complete a baccalaureate or graduate degree and teach in a nursing program at a regionally accredited college or university in California. It pays up to a total of \$25,000 over the course of 3 academic years on a full-time or part-time basis for the equivalent of three full-time academic years, on outstanding students' loans for nursing faculty. A person must be a student enrolled in or admitted to a program, in which they will be enrolled at least half-time each academic term, making satisfactory academic progress, and be nominated for participation in the program by their institution. The budget includes authorization for 100 new awards.

Nurses in State Facilities APLE provides loan forgiveness incentives for nurses to serve in clinical settings for state agencies. The budget includes authorization for 100 new awards.

National Guard APLE and proposed National Guard Tuition Assistance Program pursuant to SB 1752 The National Guard APLE program provided loan assumption incentives for recruitment and retention of California guard members. While this program has sunset, the Administration is currently sponsoring

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SB 1752 (Wyland) to provide tuition assistance benefits to guard members in a more flexible program to achieve improved outcomes. A \$1.8 million appropriation has been proposed for this purpose in the 2008-09 Governor's Budget.

The Song-Brown Health Care Workforce Training Act provides funds to institutions which, in turn, provide scholarships to individuals to increase the number of primary care providers in medically underserved areas including nurse practitioners, physician assistants, and registered nurses throughout California. The Song-Brown program is aided by the California Healthcare Workforce Policy Commission (CHWPC). CHWPC is a 15-member citizen advisory board that provides expert guidance and statewide perspectives on health professional education issues, reviews applications and recommends contract awards. Approximately \$2.9 million is proposed for this program in 2008-09.

This bill would create the CalSAVE program within the ScholarShare Trust. The CalSAVE program would provide individual scholarship accounts for beneficiaries to be determined by the SIB. Potential beneficiaries may include, but are not limited to, foster youth, youth in at-risk categories, individuals with demonstrated economic need, former and active members of the National Guard, individuals seeking degrees in disciplines in which the state faces shortages, including nursing and teaching, and other categories as determined by the board.

This bill would establish the CalSAVE account, which would be continuously appropriated to the SIB. The SIB would have the authority to create subaccounts within the CalSAVE account for each category of beneficiary. Funding for CalSAVE accounts shall be from contributions from federal, state, or local governments, individuals, businesses, and upon appropriation of the Legislature from the administrative fund. The bill would also give the authority to any person contributing to a CalSAVE account to designate which subaccount his or her contribution should be deposited in. Should the contributor not designate any subaccount, then the SIB would have the authority to apportion the undesignated funds among subaccounts at its discretion.

B. Fiscal Analysis

The State Treasurer's Office has indicated that there would be no administrative costs to their organization associated with implementing the CalSAVE program. However, Finance believes there would likely be significant new state operations workload to set up accounts, manage the accounts, receive applications and award scholarships to beneficiaries. These costs could be significant and would be dependent on the number and conditions attached to donations or other fund sources and the effort required to designate awards among eligible applicants. These costs could be in the millions of dollars over time. We presume the fund source for these administrative activities would come from the continuously appropriated administrative fund which is derived from investment earnings of the funds deposited in the ScholarShare Trust Fund.

However, this bill also authorizes state contributions to fund new scholarships and, to the extent, the SIB creates accounts for specified target groups, there would likely be pressure for state General Fund contributions of unknown but potentially significant magnitude. For instance, a private donor could designate a contribution for a specific purpose, conditioned on matching funds from the state. Or, applications could exceed availability of donated funds creating pressure to appropriate General Funds. Additionally, to the extent that non-state donations fail to materialize or decline over time, further pressure would be placed upon the General Fund to support scholarship programs created by the SIB.

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)**Form DF-43****AUTHOR****AMENDMENT DATE****BILL NUMBER**

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Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2007-2008	FC	2008-2009	FC	2009-2010	Code
0954/Scholarshare	SO	No	-----	See Fiscal Analysis				-----	0001